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**DeNUCCI'S AUDIT SAYS LOTTERY NEEDS MORE IMPROVEMENTS**

State Auditor Joe DeNucci reported in an audit today that the Massachusetts State Lottery continues to be troubled with multiple ticket cashers, problems with suspicious ticket cashing, questionable controls over sales agents, ineffective collection of receivables, lax oversight of lost and stolen tickets, and unfair tax withholding practices.

DeNucci's audit, while noting that some steps have been taken to address the recommendations in his last audit of the Lottery in 1999, called on the State Lottery to establish much stronger controls in order to protect public confidence in the Lottery.

This is the third audit of the Lottery issued by DeNucci in the last six years, and is the first to cover a period entirely under the administration of the current State Treasurer.

Major findings in the report include these:

**Multiple ticket cashers:** Many individuals are still cashing large amounts of lottery tickets with minimal or no state and federal taxes being withheld, since the Lottery only withholds taxes from winning tickets exceeding \$5,000. DeNucci's 1999 audit revealed numerous instances of suspicious multiple winners and recommended that the Lottery work with federal and state agencies to address tax evasion loopholes. Nevertheless, today's audit reported these examples:

- One person during the period 1999 through April of this year claimed 679 prizes for \$1,168,378 and had only \$9,700 (0.83%) withheld in federal and state taxes.
- Another person during the same period claimed 543 prizes for \$805,746 and had only \$3,407 (0.42%) withheld in federal and state taxes.
- Three individuals claimed 625 prizes for \$1.1 million and had only \$26,841 (2.44%) in taxes withheld.
- There were numerous instances of one-day claims by individuals of up to \$95,000, averaging \$47,050, with no taxes withheld.

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- The top two prizewinners in terms of total winnings in calendar year 2001 were also among the top five cited in DeNucci's 1999 audit. Last year, the top individual made 290 claims for \$458,954 and had \$6,500 taxes withheld. In 1998, he made 319 claims for \$412,482 and had no taxes withheld. The second individual in 2001 made 317 claims for \$444,239.75 and had \$3,407 withheld. In 1998, he made 68 claims for \$131,245 and had no taxes withheld. DeNucci said this not only causes lost revenue for the federal and state governments but is also unfair to the ordinary lottery player who may win one prize exceeding \$5,000 and be subject to the 33 percent withholding for federal and state taxes.

DeNucci recommended that the Lottery consider accumulating multiple tickets cashed by one person so taxes are withheld when the total amount exceeds \$5,000. Moreover, the audit called on the Lottery to take a leadership role to establish fairer tax withholding practices and pursue any illegal activities.

**Raynham Greyhound Park's unique arrangement with the Lottery:** The Massasoit Greyhound Association Inc., which runs Raynham Greyhound Park, is the only sales agent that is allowed to cash tickets in excess of \$600. The racetrack can redeem claims of up to \$49,999.99 in cash or checks, while the Lottery's Braintree and regional offices only pay up to \$25 in cash. In 2001, 11 individuals made 1,056 claims for \$1,732,151, which is 31 percent of all claims at Raynham and 70 percent of claims over \$600. This situation was questioned by the Lottery's private auditing firm in 1999 and 2001, as well as its own internal compliance unit, and has not been addressed. In addition, two individuals with state tax liens totaling \$143,665 made 238 claims totaling \$443,335 last year and the winnings were not used to satisfy the liens.

DeNucci recommended that the Lottery work with federal and state tax agencies to help capture the outstanding liens from winners.

**Suspicious claims by instant game winners:** Two individuals with the same last name living at the same address each won \$1 million prizes on Monte Carlo game tickets purchased from the same store seven months apart in 1998 and 1999. The odds of winning just one \$1 million ticket are 1.26 million to one.

During 1999 and 2000, 26 large prizes totaling \$115,000 were claimed by seven persons living at the same address, six with the same last name which was also the same last name as the previously mentioned two \$1 million winners. The owner of the residence, one of the prizewinners with the same last name, was also the sales agent at the two stores where all 26 tickets were purchased.

Two additional persons with the same last name as those cited in the previous two examples cashed \$4 million and \$1 million winning tickets in 2001 and 1999, one of which had the same last name as the sales agent.

In 1999, one sales agent cashed a \$1 million Monte Carlo ticket that was bought at his own restaurant, while a family member of another sales agent and restaurant owner cashed a \$1 million Monte Carlo ticket that was bought at that restaurant. A third \$1 million Monte Carlo prize was claimed in 1998 by a sales agent who bought the ticket at his business.

Additionally, the audit noted that in six games over three years old, 17 grand prizes valued at a total of \$20 million still remain unclaimed, including five \$1 million Monte Carlo tickets.

DeNucci's audit recommended that sales agents and their families be prohibited from purchasing tickets from their own stores. The audit also recommended that the Lottery use information in its data base to periodically review claims, and refer unusual or irregular claim patterns to law enforcement authorities.

**Lack of reporting of losses or thefts of lottery tickets:** According to Lottery records, there were 2,895 reported cases of lost or stolen tickets at sales agent locations, 836 of which were attributed to distribution problems, from 1999 through June of this year. The Lottery could not say how many tickets this represents or what their value was. These incidents were not reported to the State Auditor's office as required by the state's Internal Controls Law, Chapter 647 of the Acts of 1989.

The audit recommended that the Lottery either notify the public of any large prizes that may no longer be available in a game, so that players are aware that the odds have diminished, or replenish lost or stolen tickets that have been deactivated.

**Other major findings in DeNucci's audit included:**

- The Lottery in most instances is not terminating an agent's ability to cash tickets after the agent has committed a certain number of infractions while scanning instant tickets. Without such controls, there is not enough protection against potential abuse by sales agents.
- The Lottery still needs to improve its efforts to collect \$10 million that it is owed by more than 1,200 terminated or suspended sales agents. In addition, the Lottery has written off \$13 million in bad debts over four years that could have been covered by increasing the 35-cent-per-day amount charged agents to cover any losses resulting from non-performance.

DeNucci's report noted that the Lottery has improved its steps to obtain adequate identification of prizewinners, although it still lacks controls to ensure that delinquent sales agents are unable to cash tickets without first repaying their debts. The audit also noted that the Lottery has taken steps to improve security over its handling of instant game tickets at Lottery offices, including unsold books that are returned to Lottery headquarters.

"The Lottery is a \$4 billion-a-year gaming operation financed largely by people with lower incomes," said DeNucci. "More has to be done by management to ensure increased public accountability and fairness to all lottery players."